
CHAPTER 5

5-000 Contract Financing and Interim (Billing) Methods

5-101 Introduction

a. Our discussion on contract financing and interim billing methods begins with terminology. Contract financing involves certain FAR-specified arrangements for infusing money to a contractor as work progresses and in advance of payment for delivered end product. In most business settings, it is customary for the work to be performed and completed in a satisfactory manner prior to invoicing the customer. In Government contracting, the work to be performed may take several months or even years of effort before the service has been rendered, or items delivered. Therefore, the Government often uses contract financing methods to help offset costs incurred by the contractor in its performance of the contract. Additionally, on cost type contracts, the government achieves the same effect by making interim billing payments.

b. The Government's approach to contractor cash needs varies with the type of contract. Cost-type contracts provide for interim payments for costs vouchered on a Standard Form (SF) 1034 public voucher. Fixed-price contracts are subject to FAR Part 32 financing methods, the most common of which to date has been cost-based progress payments. Cost-based progress payments are requested on a SF 1443 progress payment request form. The contract will designate an address to which these forms are submitted (the billing address) and the distribution, number of copies, etc. Increasingly, for fixed-priced contracts, the Department of Defense is supporting the use of performance-based payments. Performance-based payments are not based on costs, but on events or other quantifiable measures of results. As of January 1, 2002, there was no specified format or Standard form for the submission of performance-based payments.

c. When the contract performance is assisted by cost-based means, such as interim cost reimbursement (interim vouchers) or cost based progress payments, the billing system and the contract costs are subject to periodic audits by DCAA. When the costs are audited, DCAA will, at a minimum, verify that the costs billed have been incurred in performance of the contract, that they are in agreement with the accounting records, and that they are in accordance with the contract terms. Billed direct costs are generally based on costs recorded in the accounting system for the contract and adjusted for unpaid items as discussed later in this chapter. Billed indirect expenses are based on the application of estimated allowable expense rates for the fiscal year and adjusted at the end of the fiscal year to represent the allowable recorded year end rates. The estimated allowable rates should be based on the current operating budgets for the fiscal year. The contractor may be required to submit schedules of estimated and actual indirect expenses to the local DCAA office as soon as this information is known. These schedules should be similar to the Schedules 3, 4, and 5 shown in the model contractor proposal included in Chapter 3-501.

5-201 Public Vouchers Under Cost-Type Contracts- Responsibility for Preparation

a. The contractor is responsible for preparing and submitting claims for reimbursement according to the terms of the contract. These submissions should not contain any classified information and should not be made more than once every two weeks, unless other arrangements are made with the contracting officer.

b. Public voucher claims for reimbursement must be prepared on the prescribed Government forms (refer to paragraph 5-302) and the first request (public voucher) must be submitted directly to the auditor. The first voucher on a contract is effectively an interim voucher, as are all subsequent vouchers prior to the final or completion voucher. A final "completion" voucher will not be submitted until all contract work is completed. The auditor may provide advice concerning the format for preparing public vouchers and financial representations.

c. If authorized, contractors may submit subsequent public vouchers directly to certain Government paying offices; otherwise the vouchers must go through the DCAA office responsible for the contractor. The contractor should contact its cognizant DCAA office shortly after contract award to determine whether the contractor meets the criteria to submit vouchers directly to Government paying offices or whether the contractor is required to submit vouchers to its cognizant DCAA office (see 5-301 below). The contractor should also ensure that DCAA has the necessary information to process contract billings and to inquire if the DCAA office has any procedures peculiar to that office.

5-301 Direct Billing of Interim Vouchers to Government Paying Offices

A contractor who: (1) maintains adequate billing system internal controls, and (2) submits timely incurred cost proposals and final vouchers in accordance with FAR 52.216-7, Allowable Cost and Payment contract clause, may be eligible to submit interim public vouchers directly to certain Government paying offices rather than submitting each voucher to DCAA for approval. The Defense Finance and Accounting Service (DFAS), National Aeronautics and Space Administration (NASA), U.S. Army Corps of Engineers (COE), and the Maryland Procurement Office (MPO) paying offices participate in the direct billing program. Final vouchers on each contract must still be submitted to the cognizant DCAA field audit office (FAO) to assist in closing out contracts. The elimination of provisional approval on each voucher will reduce payment cycle time and processing costs. Continued participation in the direct billing program is contingent upon maintenance of adequate internal controls for the preparation of public vouchers and submission of incurred cost proposals and final vouchers in accordance with FAR 52.216-7. DCAA will review procedures for preparing vouchers on a periodic basis as part of its ongoing surveillance of contractor billing systems.

5-301.1 Criteria for Adequate Billing System Internal Controls

A contractor may be eligible to submit public vouchers directly to the paying office if it meets the following criteria:

a. The contractor's accounting system is acceptable for Government contract costing. The suitability of a new contractor's accounting system for Government contract costing is normally reviewed as part of an overall "Preaward Survey" conducted by the contracting officer in accordance with FAR 9.106. For billing purposes, the billed costs must be reconcilable to the cost accounting records.

b. The contractor's billing rates are established in accordance with FAR 42.704. FAR 42.704(b) requires the contracting officer or auditor to establish billing rates based on information resulting from recent reviews, previous audits or experience, or similar reliable data or experience of other contracting activities.

c. The contractor maintains cumulative allowable costs by contract to support the preparation of interim and final vouchers. As shown in Schedule I of the sample incurred cost submission in Chapter 6, contractors must maintain cumulative allowable costs by contract for the preparation of Standard Form 1035, Public Voucher Continuation Sheet. Cumulative costs are necessary to assure that the cumulative amounts billed do not exceed the total estimated ceiling costs on the contract and/or the current contract maximum funding levels.

d. The contractor adjusts billing rates to reflect actual year-end allowable costs. At the end of the fiscal year, the contractor should compare the recorded allowable rates to the billing rates to determine if the billing rates should be adjusted. If there is a significant difference between billing and actual rates, billings should be adjusted as soon as possible to reflect either: (1) the additional amount due the contractor (if the billing rates have been lower than actuals), or (2) credit due the Government (if the actual rates have been lower). The adjustment to billings can be submitted on a separate voucher or if appropriate on the next voucher submitted for ongoing contracts.

e. Contracts are briefed by the contractor to assure that billings accurately reflect special cost limitations contained in contracts. Each contract brief should contain the specific billing requirements and limitations contained in the contract. (A contract brief is a written summary of the pertinent provisions/terms/requirements, etc. of the contract.)

f. Final year-end incurred cost proposals are submitted as required by the Allowable Cost and Payment clause (FAR 52.216-7) contained in cost type contracts. FAR 52.216-7 requires these incurred cost proposals be submitted within 6 months after the expiration of the contractor's fiscal year. Cost data contained in incurred cost proposals is used to verify the validity of billing rates and the computation of billable indirect costs on interim vouchers. Risk associated with overbilled costs is increased when incurred cost proposals have not been received in a timely manner.

g. Final vouchers are submitted in accordance with FAR 52.216-7, Allowable Cost and Payment clause contained in cost type contracts. Risk associated with overbilled costs is increased when final vouchers are not received in a timely manner.

5-301.2 Participation in the Direct Billing Program

a. A contractor who has not already been contacted by DCAA, but believes that its policies and procedures meet the criteria outlined above, should write to its cognizant DCAA office to request participation in the direct billing program. The letter should include any rationale and/or documentation to support the contractor's belief that its billing system's policies and procedures meet the above criteria. During the next scheduled DCAA audit, the DCAA office will review the documentation and make a determination on eligibility to participate in the program.

b. If DCAA determines that a contractor is eligible to participate in the direct billing program, the contractor will be authorized to submit interim vouchers directly to the designated Government paying office(s) based on a DCAA authorization memorandum. The DCAA authorization memorandum to the paying office (with a copy to the contractor) will be signed by the cognizant DCAA office manager and state that the contractor has adequate internal controls over its billing system and submits incurred cost proposals and final vouchers per FAR 52.216-7; therefore, advance DCAA approval of interim vouchers is not needed. A contractor cannot begin submitting vouchers directly until the contractor receives this memorandum. When submitting interim vouchers, the paying office requires that one copy of the DCAA authorization memorandum be forwarded with the voucher, *and* that "Direct Submission Authorized" be included in the voucher signature block.

5-301.3 Rescission of Authority to Direct Bill

DCAA may rescind the contractor's authorization to direct bill when:

- An audit report to the contracting officer identifies billing system internal control deficiencies;
- A DCAA Form 1, "Notice of Contract Costs Suspended and/or Disapproved" is prepared (See 6-301 for information on DCAA Form 1s);
- The contractor fails to apply approved billing system procedures in preparing vouchers for direct billing; or
- Fiscal year-end incurred cost proposals are not submitted timely and in accordance with FAR 52.216-7, "Allowable Cost and Payment" contract clause.
- The contractor fails to submit final vouchers in accordance with FAR 52.216-7, Allowable Cost and Payment contract clause, or a previously agreed to plan to get current.

DCAA will immediately notify a contractor of a decision to withdraw its direct billing authority. DCAA will also notify the contracting officer and paying office within 24 hours of notifying the contractor.

5-301.4 Electronic Submission of Interim Vouchers

a. A contractor that participates in the direct billing program may be eligible to submit vouchers electronically via the Defense Finance and Accounting Service (DFAS) paperless initiatives. DFAS allows contractors that participate in the direct billing program to submit vouchers electronically via Electronic Data Interchange (EDI) and/or web invoicing. Contractors participating in the direct billing program that are interested in submitting interim vouchers electronically should contact DFAS, Headquarters, Electronic Commerce Program Office at (703) 607-0355 or visit the DFAS electronic commerce home page at <http://www.dfas.mil/ecedi>.

b. The electronic submission of interim vouchers does not require the submission of SF 1034 and 1035. However, contractors are required to provide SF 1034 and 1035 information to contracting officers and auditors upon request. SF 1034 and 1035 information will be periodically reviewed by contracting officers and auditors as part of their continued oversight of contractors' billing including audits of billing systems, contractor preparation of interim vouchers and status of government contract funding. If a contractor refuses to provide SF 1034 and 1035 information upon request, the contractor's authorization to direct bill will be rescinded and DFAS will be notified that the contractor should not be allowed to submit vouchers via EDI and /or web invoicing.

5-302 Prescribed Government Forms for Public Vouchers

a. The contractor must use SF 1034 (original) and 1034A (copies), "Public Voucher for Purchases and Services Other Than Personal", to show the amount claimed for reimbursement. The original public voucher (SF 1034) may be reproduced; however, it must conform to the official Government form in format, color (white), and quality of paper and must be stamped "Original". A blank SF 1034 can be found in Chapter 8.

b. The SF 1034A is essentially the same as the SF 1034. SF 1034A (copies) may be prepared by using a suitable process that will reproduce it and the typed entries on the original. Snapout public voucher sets are available (note that the snapouts contain the SF 1034 and the SF 1034A in the set). The required number of copies (per the contract or refer to paragraph 5-305.1 of this pamphlet) should be submitted to the auditor. The contractor is not required to certify or otherwise sign the public voucher.

c. SF 1035 and 1035A, "Public Voucher for Purchases and Services Other Than Personal Continuation Sheet", will be used for additional information required by the contracting officer and/or the auditor. The original continuation sheet (SF 1035) may be reproduced, provided it meets the same requirements for a reproduced SF 1034 (reference paragraphs 5-302 and 5-305.1). The contractor may prepare SF 1035A by using a suitable process that will reproduce it and the typed entries on the original. SF 1035 and 1035A should be assembled separately in original and copy sets and submitted with the SF 1034 and SF 1034A. Suitable self-designed forms may be submitted instead of SF 1035 and 1035A as long as they contain the information required by the contracting officer and/or auditor.

d. The public voucher forms may be reproduced from Chapter 8 of this pamphlet or obtained from the appropriate administrative contracting officer or, at a nominal cost, from the Government Printing Office.

5-303 Guidance for Preparing SF 1034**5-303.1 Interim Public Voucher**

a. The information required on interim public vouchers is explained below. The lettered items correspond to entries on Figure 5-3-1.

<u>Figure Reference</u>	<u>SF 1034 Caption</u>	<u>Description of Data To Be Inserted</u>
(a)	U.S. DEPARTMENT, BUREAU, OR ESTABLISHMENT AND LOCATION	The name and address of the military department or agency that negotiated the contract.
(b)	DATE VOUCHER PREPARED	The date that the public voucher is submitted.
(c)	CONTRACT NUMBER AND DATE	The number and date of the contract and task order (when applicable) under which reimbursement is claimed.
(d)	REQUISITION NUMBER AND DATE	Requisition number if available; otherwise leave blank.
(e)	VOUCHER NO.	Serial number of the voucher. Use a separate series of consecutive numbers beginning with 1 for each new contract or task order (when applicable) for which separate public vouchers are required.
(f)	SCHEDULE NO.; PAID BY; DATE INVOICE RECEIVED; DISCOUNT TERMS	Leave blank. The payer will fill in these spaces.
(g)	PAYEE'S ACCOUNT NUMBER	Enter the number (if known), or leave blank.

Figure Reference	SF 1034 Caption	Description of Data To Be Inserted
(h)	PAYEE'S NAME AND ADDRESS	<p>Firm's name as it appears in the contract and its correct address, except when another party (e.g., a bank) has been given the right to receive payment (called an assignment) or the right to receive payment has been restricted, as in the case of an advance account. An example of the type of information to be shown in this space (when an assignment has been made) follows:</p> <p>The National Bank, New York, NY Assignee for ABC Corporation New York, NY</p> <p>An example of the type of information to be shown in this space when the right to receive payment is restricted follows:</p> <p>ABC Corporation, New York, NY for deposit in the National Bank, New York, NY, Special Trust Account</p>
(i)	SHIPPED FROM; TO; WEIGHT; GOVERNMENT B/L NUMBER	Leave blank
(j)	NUMBER AND DATE OF ORDER	Leave blank
(k)	DATE OF DELIVERY OR SERVICE	The month and year or beginning and ending dates of incurred costs claimed for reimbursement (e.g., 4/1/91 -4/30/91).
(l)	ARTICLES OR SERVICES	<p>Insert the following: "For detail, see SF 1035 - - total amount of claim transferred from page <u>xx</u> of <u>xx</u> SF 1035." [The xx represents the appropriate page number(s).] One space below this line, insert "COST REIMBURSABLE -- PROVISIONAL PAYMENT"</p>
(m)	QUANTITY; UNIT PRICE	Leave blank.
(n)	AMOUNT	The total amount claimed for the time frame indicated in (k). This should be the amount transferred from the SF 1035 -- Continuation Sheet.

b. Although the instructions on the form read "(Payee must NOT use the space below)," DCAA requests that contractors follow the instructions below when completing the SF 1034:

<u>Figure Reference</u>	<u>SF 1034 Caption</u>	<u>Description of Data To Be Inserted</u>
(o)	PAYMENT	Leave blank.
(p)	APPROVED FOR	Insert "Provisional payment subject to later audit".
(q)	EXCHANGE RATE; =\$1.00	Mark out with X's the words "Exchange Rate" and the equal and dollar sign in this block.
(r)	BY	Insert the printed name, mailing address and telephone number of the auditor who will sign the public voucher. Use both blocks (r) and (s), if required. The contractor can get this information by contacting its cognizant DCAA office. If the contractor is approved for direct billing (see 5-301), the above information should NOT be inserted. The block should state "Direct Submission Authorized".
(s)	TITLE	See reference (r) above. If the contractor is approved for direct billing (see 5-301), no entry is required for this block.

Figure 5-3-1 Sample of SF 1034 Interim Voucher

Standard Form 1034 Revised October 1987 Department of the Treasury 1 TRM 4-2000 1034-121		PUBLIC VOUCHER FOR PURCHASES AND SERVICES OTHER THAN PERSONAL				VOUCHER NO. (e) 10	
U.S. DEPARTMENT, BUREAU, OR ESTABLISHMENT AND LOCATION (a) USA Rocky Mountain Arsenal Denver, CO 80240				DATE VOUCHER PREPARED (b) 15 May 1991		SCHEDULE NO. (f)	
(h) PAYEE'S NAME AND ADDRESS ABC Corporation 100 Main Street New York, NY "OR (if applicable)" The National Bank, New York, NY Assigned for ABC Corporation New York, NY				CONTRACT NUMBER AND DATE (c) DAAA05-90-C-0001, 8/1/90		PAID BY (f)	
				REQUISITION NUMBER AND DATE (d)			
SHIPPED FROM				TO (i)		WEIGHT	
						GOVERNMENT B/L NUMBER (1)	
NUMBER AND DATE OF ORDER	DATE OF DELIVERY OR SERVICE	ARTICLES OR SERVICES (Enter description, item number of contract or Federal supply schedule, and other information deemed necessary)		QUAN- TITY	UNIT PRICE COST PER		AMOUNT (1)
(j)	(k) 4/1/91 4/30/91	(l) For detail, see SF 1035 - total amount of claim transferred from page 1 of 1 SF 1035 COST REIMBURSABLE - PROVISIONAL PAYMENT		(m)	(m)	(m)	(n) \$5,372
(USE CONTINUATION SHEETS, IF NECESSARY)				(Payee must NOT use the space below)		TOTAL	
PAYMENT: <input type="checkbox"/> PROVISIONAL <input type="checkbox"/> COMPLETE <input type="checkbox"/> PARTIAL <input type="checkbox"/> FINAL <input type="checkbox"/> PROGRESS <input type="checkbox"/> ADVANCE		APPROVED FOR (p) Provisional payment, Subject to later (q) BY 2 audit (r) Joel J. Hunt, Auditor Defense Contract Audit Agency TITLE 123 Anyplace (703) 555-1111 (s) Any City, Any State 00000		DIFFERENCE \$ Amount verified, correct for (Signature or initials)			
Pursuant to authority vested in me, I certify that this voucher is correct and proper for payment.							
(Date)		(Authorized Certifying Officer) 2				(Title)	
ACCOUNTING CLASSIFICATION							
PAID BY	CHECK NUMBER ON ACCOUNT OF U.S. TREASURY			CHECK NUMBER ON (Name of bank)			
	CASH DATE			PAYEE 3			
\$			PER				
			TITLE				
<small>1 When stated in foreign currency, insert name of currency. 2 If the ability to certify and authority to approve are combined in one person, one signature only is necessary; otherwise the approving officer will sign in the space provided, over his official title. 3 When a voucher is received in the name of a company or corporation, the name of the person writing the company or corporate name, as well as the capacity in which he signs, must appear. For example, "John Doe Company, per John Smith, Secretary" or "Treasurer", as the case may be.</small>							
<small>Previous edition usable.</small>							
PRIVACY ACT STATEMENT The information requested on this form is required under the provisions of 31 U.S.C. 82b and 82c, for the purpose of disbursing Federal money. The information requested is to identify the particular creditor and the amounts to be paid. Failure to furnish this information will hinder discharge of the							

5-303.2 Completion Voucher

a. The completion voucher is the last voucher to be submitted on a contract or task order. A separate completion voucher will be submitted for each individual project or task order for which a separate series of public vouchers has been submitted.

b. FAR 52.216-7(d)(4) requires the contractor to submit the completion voucher within 120 days after settlement of the final indirect cost rates covering the year in which the contract is physically complete or longer, if approved in writing by the contracting officer. However, prior to submitting the completion voucher, DCAA must have completed an audit of the contractor's incurred costs relating to the contract. Within 6 months after the end of each of its fiscal years for estimating, accumulating, and reporting contract costs, the contractor shall submit to the contracting officer and to the cognizant DCAA office, a proposed final incurred cost proposal for the period (reference FAR 52.216-7(d)(2)(i)). It should be based on the actual cost experienced during that period, and be submitted with supporting cost data, specifying the contracts and subcontracts to which the rates apply. A sample format of this submission is contained in Chapter 6 of this pamphlet.

c. After the incurred cost proposal is submitted, the contractor's costs will be audited as soon as possible. Normally, a contract cannot be closed out unless the applicable costs have been audited. Therefore, the contractor should not prepare or submit the completion invoice until the DCAA audit of the contractor's fiscal years during which costs have been incurred under the contract has been completed.

d. The SF 1034 that is submitted on the final voucher is identical to that for the interim voucher except for the following items (refer to Figure 5-3-1):

Figure Reference	SF 1034 Caption	Description of Data To Be Inserted
(e)	VOUCHER NO.	Serial number of the voucher with the word "Final" after it. Use a separate series of consecutive numbers beginning with 1 for each new contract or task order (when applicable) for which separate public vouchers are required.
(l)	ARTICLES OR SERVICES	Insert the following: "For detail, see SF 1035 -- total amount of claim transferred from page <u>xx</u> of <u>xx</u> SF 1035". [The "xx" represents the appropriate page numbers.] One space below this line insert "COST REIMBURSABLE -- COMPLETION VOUCHER"
(o)	PAYMENT	The box identified "FINAL" should be marked.
(p)	APPROVED FOR	Insert "Final Payment".
(r)	BY	Leave this box blank. (Auditor name should NOT be inserted).

Figure Reference	<u>SF 1034 Caption</u>	<u>Description of Data To Be Inserted</u>
(s)	TITLE	“Auditor, Defense Contract Audit Agency” should NOT be inserted since DCAA does not sign the final voucher. This is done by the contracting officer, based on DCAA’s final report.

5-304 Guidance for Preparing SF 1035

The SF 1035 is used for additional information required by the contracting officer and/or auditor. Depending on the type of cost contract (e.g., cost plus fixed fee, cost-sharing no fee, etc.) the information required on the SF 1035 may differ in format and content. Figures 5-3-2 and 5-3-3 represent examples of SFs 1035 for cost plus fixed fee and cost-sharing no fee contracts, respectively.

5-304.1 Interim Public Voucher – Cost Plus Fixed Fee Contract

- a. The lettered items correspond to entries on Figure 5-3-2.

Figure Reference	<u>SF 1035 Caption</u>	<u>Description of Data To Be Inserted</u>
(a)	U.S. DEPARTMENT, BUREAU, OR ESTABLISHMENT	The name and address of the military department or agency that negotiated the contract.
(b)	VOUCHER NO.	The appropriate serial number of the voucher as shown on SF 1034.
(c)	SCHEDULE NO.	Leave blank.
(d)	SHEET NO.	The sheet number in numerical sequence if more than one sheet is used. Use as many sheets as necessary to show the information required by the contracting officer or the auditor.

b. The following items are generally entered below the line with Number and Date of Order; Date of Delivery or Service; Articles or Services; Quantity; Unit Price; and Amount, but do not necessarily tie to these captions. The items entered are what most auditors and contracting officers require on the SF 1035. Discuss SF 1035 requirements with the local DCAA office to be sure that there are no unique local requirements that could impact preparation of the SF 1035.

Figure Reference	<u>Description of Data To Be Inserted</u>
(e)	Payee's name and address as shown on SF 1034.
(f)	The contract number and the task order number when applicable.

Figure Reference	Description of Data To Be Inserted
(g)	Target or estimated costs, target or fixed-fee, total contract value, and amount of fee payable. FAR 52.216-8(b) states that "...after payment of 85 percent of the fixed fee, the Contracting Officer may withhold further payment of fee until a reserve is set aside in an amount that the Contracting Officer considers necessary to protect the Government's interest. This reserve shall not exceed 15 percent of the total fixed fee or \$100,000, whichever is less." Therefore, the amount of fee payable is normally 85 percent of the total fee payable.
(h)	Insert: " <u>Analysis of Claimed Current and Cumulative Costs and Fee Earned.</u> "
(i)	The major cost elements. Use additional SF 1035s if necessary to show the detail of direct transportation charges and the computations of overhead adjustments from provisional rates to final audited rates (allowable actual rates).
(j)	The amount billed by the major cost elements, contract reserves and adjustments, and adjusted amounts claimed for the current period.
(k)	The cumulative amounts billed by the major cost elements, contract reserves, and adjusted amounts claimed to date of this billing.
(l)	The total costs for current and cumulative periods.
(m)	The target or fixed-fee earned and due for the current and cumulative periods, and the formula for the computation (percentage of costs, percentage of completion, etc.).
(n)	The total costs claimed and the target or fixed-fee due for the current and cumulative periods.
(o)	The details of the contract reserves withheld in the current period and for the cumulative period. The contractor is responsible for reducing its claims for contract reserves. There may be several contract clauses that address the Contracting Officer's authority to establish contract reserves and under what circumstances these reserves can be established. The contracting officer will notify the contractor of any applicable reserves. This is not to be confused with the clause at FAR 52.216-8 that gives the contracting officer authority to withhold 15% of the fee payable (refer to (g) above).

Figure Reference	Description of Data To Be Inserted
(p)	Show the status of all outstanding DCAA Forms 1, "Notice of Contract Costs Suspended and/or Disapproved". NOTE: This instruction will not be applicable to the large majority of contractors. When not applicable, this item should be omitted. The DCAA Form 1 is the form used to effect suspension and disapproval of costs or fees claimed for payment on a contractor's reimbursement vouchers. In general, an item of cost, either direct or indirect, that lacks adequate explanation or documentary support for definitive audit approval or disapproval will be suspended until the required data are received and a determination can be made as to the allowability of the item. Costs for which audit action has been completed and which are not considered allowable, will be disapproved. When amounts on an outstanding DCAA Form 1 are resubmitted, they will be shown in the current period column, and the corresponding cumulative total of outstanding suspensions or disapprovals will be reduced to cover the resubmission so that the cumulative amounts will be "net."
(q)	Net reserves and adjustments.
(r)	Show the costs and fee subject to reimbursement for the current and cumulative periods.
(s)	Amount to be carried forward to SF 1034.

Figure 5-3-2 Sample of SF1035 Interim Voucher

Standard Form 1035 September 1973 4 Treasury FRM 2000 1035-110		PUBLIC VOUCHER FOR PURCHASES AND SERVICES OTHER THAN PERSONAL			VOUCHER NO (b) 10	
		CONTINUATION SHEET			SCHEDULE NO (c)	
					SHEET NO (d)	
U.S. DEPARTMENT, BUREAU, OR ESTABLISHMENT (a) USA Rocky Mountain Arsenal, Denver, CO 80240						
NUMBER AND DATE OF ORDER	DATE OF DELIVERY OR SERVICE	ARTICLES OR SERVICES (Enter description, item number of contract or Federal supply schedule, and other information deemed necessary)	QUAN- TITY	UNIT PRICE		AMOUNT
				COST	PER	
(e) ABC Corporation 100 Main Street New York, NY		(f) Contract No. DAAA05-90-C- 0001	(g) Target/Estimated Costs			\$250,000
			(g) Target/Fixed Fee			15,000
			(g) Total			\$265,000
			(g) 85% of Fixed Fee			12,750
		(h) Analysis of Claimed Current and Cumulative Costs and Fee Earned	(j) Amount for Current Period Billed			(k) Cumulative Amount From Inception to Date of This Billing
(i) Major Cost Elements:						
Direct Materials			\$	700		\$ 25,000
Subcontracts (Cost & Redeterminable)				1,500		8,140
Interplant Charges				200		1,250
Special Tooling				200		3,750
Direct Transportation Costs				175		520
Direct Labor				650		60,000
		- (Manufacturing, Engineering, etc.)				
Overhead				925		90,000
General & Administrative Expenses				435		18,860
(l) Total Costs			\$	4,785		\$ 207,520
(m) Fixed Fee Earned (Formula i.e. Total Costs x 6%)				287		12,451
(n) Total Amounts Claimed			\$	5,072		\$ 219,971
Contract Reserves and Adjustments:						
(o) Contract Reserves Withheld -(Identify)			\$	(500)		\$ (15,000)
(o) Contract Reserves Cleared				700		11,000
(p) DCAA Form 1 - Resubmittal (Voucher No.)				100		--
(p) DCAA Form 1 - Conceded by Contractor						(1,600)
(p) DCAA Form 1 - Outstanding Suspensions						(1,700)
(p) DCAA Form 1 - Disapprovals Subject to Appeal						(2,000)
(q) Net - Reserves and Adjustments			\$	300		\$ (9,300)
(r) Adjusted Amounts Claimed:						
Current and Cumulative Costs			\$	5,085		\$198,220
Fixed Fee				287		12,451
Total			(s) \$	5,372		\$210,671

5-304.2 Interim Public Voucher – Cost-Sharing No Fee Contract

a. The following is an example of a SF 1035 for a cost-sharing no fee contract. The example of the SF 1035 (Figure 5-3-3) is separate and distinct from the preceding SF 1034 (figure 5-3-1) and SF 1035 (Figure 5-3-2).

Figure Reference	<u>SF 1035 Caption</u>	<u>Description of Data To Be Inserted</u>
(a)	U.S. DEPARTMENT, BUREAU, OR ESTABLISHMENT	The name and address of the military department or agency that negotiated the contract.
(b)	VOUCHER NO.	The appropriate serial number of the voucher as shown on SF 1034.
(c)	SCHEDULE NO.	Leave blank.
(d)	SHEET NO.	The sheet number in numerical sequence if more than one sheet is used. Use as many sheets as necessary to show the information required by the contracting officer or the auditor.

b. The following items are generally entered below the line under Number and Date of Order; Date of Delivery or Service; Articles or Services; Quantity; Unit Price; and Amount, but do not necessarily tie to these captions. The items entered are what most auditors and contracting officers require on the SF 1035. Discuss SF 1035 requirements with the local DCAA office to be sure that there are no unique local requirements that could impact preparation of the SF 1035.

Figure Reference	Description of Data To Be Inserted
(e)	Payee's name and address as shown on SF 1034.
(f)	The contract number and the task order number when applicable.
(g)	Total estimated costs, contractor's share of costs, Government's share of costs and 1% of Government share of costs. FAR 52.216-12(b) states that "After paying 80 percent of the Government's share of the total estimated cost of performance shown on the schedule, the Contracting Officer may withhold further payment of allowable cost until a reserve is set aside in an amount that the Contracting Officer considers necessary to protect the Government's interest. This reserve shall not exceed one percent of the total estimated cost shown in the schedule or \$100,000 whichever is less." Therefore, a contract reserve of 1 percent of incurred costs is normally withheld after 80 percent of the Government share of total estimated costs is paid.
(h)	Insert: " <u>Analysis of Claimed Current and Cumulative Costs and Fee Earned.</u> "
(i)	The major cost elements. Use additional SF 1035s if necessary to show the detail of direct travel charges and the computations of overhead adjustments from provisional rates to final audited rates (allowable actual rates).
(j)	The amount billed for the current period, and cumulative amount from contract inception to date of this billing.

(k)	The Government's share of amount billed for the current period and Government's share of the cumulative amount billed from contract inception to date of this billing.
(l)	The contractor's share of amount billed for the current period and contractor's share of the cumulative amount billed from contract inception to date of this billing.
(m)	The total costs incurred summarized by contract, by Government share and by contractor share.
(n)	The one- percent contract withholding required by FAR 52.216-12(b).
(o)	Total amount claimed by the contractor for current period and cumulative from contract inception to date of this billing. The current period amount is to be carried forward to the SF 1034.

Figure 5-3-3 Sample of SF 1035 Interim Voucher

Standard Form 1035 September 1973 4 Treasury FRM 2000 1035-110		PUBLIC VOUCHER FOR PURCHASES AND SERVICES OTHER THAN PERSONAL <i>CONTINUATION SHEET</i>				VOUCHER NO. (b) 10 SCHEDULE NO. (c) SHEET NO. (d)	
U.S. DEPARTMENT, BUREAU, OR ESTABLISHMENT							
(a) US Army Material Command, Atlanta, GA 30080							
NUMBER AND DATE OF ORDER	DATE OF DELIVERY OR SERVICE	ARTICLES OR SERVICES <i>(Enter description, item number of contract or Federal supply schedule, and other information deemed necessary)</i>	QUAN- TITY	UNIT PRICE		AMOUNT	
				COST	PER		
(e) DEF Corporation 100 Any Street Baltimore, MD		(f) Contract No. DAAA09-96-C-0002		(g)	Estimated Costs	<u>\$250,000</u>	
				(g)	Contractor Share	<u>\$150,000</u>	
				(g)	Gov't Share	<u>\$100,000</u>	
				(g)	1% of Gov't Share	<u>\$ 1,000</u>	
(h) Analysis of Claimed Current and Cumulative Costs							
(i)	(j) Total		(k) Gov't Share (40%)		(l) DEF Corp. Share (60%)		
Major Cost Elements	Current Period Costs	Cumulative Costs From Inception to Date of This Billing	Amount Billed for Current Period Costs	Cumulative Amount From Inception to Date of This Billing	Amount Billed for Current Period Costs	Cumulative Amount From Inception to Date of This Billing	
Direct Material	\$6,000	\$30,000	\$2,400	\$12,000	\$3,600	\$18,000	
Subcontracts	\$2,500	\$15,000	\$1,000	\$6,000	\$1,500	\$9,000	
Interplant Charges	\$1,020	\$8,300	\$408	\$3,320	\$612	\$4,980	
Special Tooling	\$250	\$2,500	\$100	\$1,000	\$150	\$1,500	
Direct Travel Costs	\$210	\$1,000	\$84	\$400	\$126	\$600	
Direct Labor	\$12,000	\$60,000	\$4,800	\$24,000	\$7,200	\$36,000	
Overhead (150%)	\$18,000	\$90,000	\$7,200	\$36,000	\$10,800	\$54,000	
G & A Expenses (15%)	<u>\$5,997</u>	<u>\$31,020</u>	<u>\$2,399</u>	<u>\$12,408</u>	<u>\$3,598</u>	<u>\$18,612</u>	
(m) Total Costs	<u>\$45,977</u>	<u>\$237,820</u>	<u>\$18,391</u>	<u>\$95,128</u>	\$27,586	\$142,692	
(n) Contract Reserves and Adjustments					<u>\$(276)</u>	<u>\$(1,000)</u>	
(o) Total Amount Claimed					<u>\$27,310</u>	<u>\$141,692</u>	

PerFORM (DLA)

5-304.3 Completion Voucher

a. The following is a sample SF 1035 for a completion invoice. Delay in processing completion invoices can be avoided if these instructions are followed. Note: The example of the SF 1035 (Figure 5-3-4) for the completion voucher is separate and distinct from the preceding SF 1034 (Figure 5-3-1) and SFs 1035 (Figure 5-3-2 and 5-3-3) examples.

Figure Reference	SF 1034 Caption	Description of Data To Be Inserted
(a)	U.S. DEPARTMENT, BUREAU, OR ESTABLISHMENT	The name and address of the military department or agency that negotiated the contract.
(b)	VOUCHER NO.	The appropriate serial number of the voucher as shown on SF 1034 (with the word "Final" typed after it).
(c)	SCHEDULE NO.	Leave blank.
(d)	SHEET NO.	The sheet number in numerical sequence if more than one sheet is used. Use as many sheets as necessary to show the information required by the contracting officer or the auditor.

b. The following items are generally entered below the line under Number and Date of Order; Date of Delivery or Service; Articles or Services; Quantity; Unit Price; and Amount, but do not necessarily tie to these captions. The items entered are what most auditors and contracting officers require on the SF 1035. Discuss SF 1035 requirements with the local audit office to be sure that there are no unique local requirements that could impact preparation of the SF 1035.

Figure Reference	Description of Data To Be Inserted
(e)	Payee's name and address as shown on SF 1034.
(f)	The contract number and the task order number when applicable.
(g)	The latest; target or estimated costs, target or fixed-fee total contract value.
(h)	Type: " <u>Contractor's Cumulative Claim and Reconciliation Statement</u> ".
(i)	The major cost elements. Use additional SF 1035s, if necessary, to show the detail of certain charges or computations. A separate column should be prepared for each of the contractor's fiscal years. The amounts shown for direct costs should always tie in to the costs shown on the submission prepared for audit as explained in paragraph 5-304.1. Any direct costs questioned during our audit of costs should be excluded from the applicable contractor's fiscal year. Fringe, overhead, and G&A should be computed using the rates as explained in reference (j). The total costs being billed cannot exceed the estimated cost of the contract. Unless the contract has been modified, overrun costs cannot be claimed. Any amount in excess of the contract value should be subtracted from the total.

Figure Reference	Description of Data To Be Inserted
(j)	The final audit determined or negotiated fringe, overhead, and GA rates should be listed by contractor's fiscal year as shown. However, if the contract specifies ceiling rates, the rates shown cannot exceed the ceiling(s) in the contract.
(k)	The cumulative amounts billed by the major cost elements less previous payments.
(l)	The total costs claimed. This should not exceed the estimated contract costs.
(m)	Bill for any portion of the fee not previously billed. If the contract provides for an incentive fee, show the computations of the total fee claimed. Use separate sheets if necessary.
(n)	The total costs claimed and the target or fixed-fee due. This should not exceed the total contract amount.
(o)	The amount of total previous payments received on interim vouchers.
(p)	The amount due should be the amount that appears on the SF 1034.

Figure 5-3-4 Sample of SF 1035 Completion Voucher

Standard Form 1035 September 1973 4 Treasury FRM 2000 1035-110		PUBLIC VOUCHER FOR PURCHASES AND SERVICES OTHER THAN PERSONAL CONTINUATION SHEET				VOUCHER NO (b) 30 Final SCHEDULE NO (c) SHEET NO (d)	
U.S. DEPARTMENT OF BUREAU OF ESTABLISHMENT (a) Navy Regional Medical Center, San Diego, CA							
NUMBER AND DATE OF ORDER	DATE OF DELIVERY OR SERVICE	ARTICLES OR SERVICES (Enter description, item number of contract or Federal supply schedule, and other information deemed necessary)	QUAN- TITY	UNIT PRICE		AMOUNT	
				COST	PER		
(e) XYZ Corporation 200 Euclid St. Tampa, Florida 20005		(f) Contract No. N66818-91-C- 0091					
		(g) Target/Estimated Costs				\$400,000	
		(h) Contractor's Cumulative Claim Reconciliation Statement				(g) Fixed Fee 36,000	
						(g) Total \$436,000	
(j) Final Rates		FY 87 FY 88				(k) Total	
Fringe Benefit Rate		10.93% 12.15%					
Overhead Rate		112.99 92.30					
G&A Rate		2.91 14.97					
(i) Major Cost Elements							
Salaries		\$115,572.17 \$ 16,068.11	\$3,033.44			\$134,673.72	
Fringe Benefits		12,632.04 1,952.28	404.36			14,988.68	
Total Direct Labor		\$128,204.21 \$ 18,020.39	\$3,437.80			\$149,662.40	
Overhead		\$144,857.94 \$ 16,632.82	\$3,165.90			\$164,657.66	
Material		2,242.16				2,242.16	
Subcontract		62,351.00				62,351.00	
Travel		4,193.94 297.76				4,491.70	
Consultants		1,071.76				1,071.76	
Other Direct Costs		770.10 8.34	9.00			787.44	
Subtotal		\$343,691.11 \$ 34,959.31	\$6,613.70			\$385,264.12	
G&A		10,001.41 5,233.41	815.47			16,050.29	
Total Costs Incurred		\$353,692.52 \$ 40,192.72	\$7,429.17			\$401,314.41	
Amount in Excess of Contract Amount						(1,314.41)	
(l) Total Cost Claimed						\$400,000.00	
(m) Fixed Fee						36,000.00	
(n) Total						\$436,000.00	
(o) Less Previous Payments						(433,871.23)	
Amount Due					(p)	\$ 2,128.77	

5-305 Submission Requirements

5-305.1 General

Unless otherwise notified or specified differently in the contract, public vouchers must be submitted according to the following requirements:

a. Direct Billing of Interim Vouchers to Government Paying Offices

Original SF 1034, SF 1035, or equivalent contractor's attachment. If the snapout forms available from the Government Printing Office are not used, mark the words "ORIGINAL" on this sheet. A copy of the DCAA Authorization Memorandum for direct billing should be forwarded with the original voucher. The signature block on the voucher should state "Direct Submission Authorized".

b. Auditor Approval of Interim Vouchers

(1) Original SF 1034, SF 1035, or equivalent contractor's attachment. If the snapout forms available from the Government Printing Office are not used, mark the words "ORIGINAL" on this sheet.

(2) For those contractors submitting interim vouchers to any of the following four addresses, there is no need to submit any copies of the voucher. The original SF 1034 and SF 1035 is sufficient.

DFAS – Columbus
PO Box 369016
Attn: Columbus CP
Columbus, Ohio 43213-1152

DFAS – Columbus
PO Box 369020
Attn: Limestone VP
Columbus, Ohio 43213-1152

DFAS – Columbus
PO Box 369023
Attn: Indianapolis VP
Columbus, Ohio 43213-1152

DFAS – Columbus
PO Box 369024
Attn: Dayton VP
Columbus, Ohio 43123-1152

(3) For contractors submitting interim vouchers to other than the four addresses listed in (2) above, six copies of SF 1034A, SF 1035A, or equivalent contractor's attachment are required. If the snapout forms available from the Government Printing Office are not used, mark the words "COPY" on these sheets.

5-305.2 Completion Voucher

a. When a voucher is identified as the "Completion Voucher", the voucher should be submitted to DCAA. An additional copy will be submitted to the administrative contracting officer (ACO).

b. In addition to the SF 1034s and SF 1035s, the contractor is required to submit an original and four copies of the following documents to DCAA:

(1) Contractor's release of claims, and, if applicable, an Assignee's release of claims in a form acceptable to the contracting officer. The amount listed on this release should be the total allowable cost plus allowable fee. It should tie in to the total amount claimed on the SF 1035. Refer to Chapter 8 for the format.

(2) Contractor's assignment of refunds, rebates, credits, and other amounts and, if applicable, an Assignee's assignment of refunds, rebates, credits, and other amounts in a form acceptable to the contracting officer.

5-305.3 Separate Public Voucher Submission Requirements

A separate public voucher (or if appropriate, a separate series of public vouchers) should be submitted for:

a. Amounts previously disallowed by the General Accounting Office.

b. Each line item, sub line item, project, or portion of a multiple funded contract for which separate funding is provided under the contract. A contractor who believes that this would create additional work and expense by requiring maintenance of records over and above that which the accounting system provides should refer the matter to the contracting officer for resolution.

c. Each portion of a contract which is payable by a different disbursing office.

d. Costs claimed under a qualification in the final release on a completed contract or in the settlement agreement under a terminated contract.

e. On contracts administered by the Defense Logistics Agency, separate public vouchers are required where the claim is for:

(1) Settlement expenses on a partially or completely terminated contract.

(2) Subcontractor settlement on a partially or completely terminated contract. In this case, the proposed subcontract termination settlement must be submitted to the termination contracting officer for approval, except for those settlements concluded under FAR 49.108-4. Evidence of the approval must accompany the voucher when it is submitted to the auditor for processing.

(3) In cases where the settlement of a subcontract is the basis of a claim, the contractor must submit the voucher for the subcontract settlement amount directly to the administrative contracting officer who will forward the voucher to the appropriate office. The voucher, together with a letter indicating the amount of the settlement approved for payment, will be returned to the contractor. The contractor will then submit the voucher, with a copy of the approval letter, to the auditor for processing.

5-306 Requirements for Supporting Fee Claims

Each SF 1035 (or contractor equivalent form) should include the basis of the claim for earned fee.

5-307 Resubmission of Costs Previously Suspended or Disapproved

Resubmissions of any previously claimed amounts that were suspended or disapproved by a DCAA Form 1 should be shown as a separate line item on public vouchers. Cite the number of the public voucher on which the deduction was made and the number of the DCAA Form 1. Suspensions and disapprovals that have been successfully appealed should be identified by citing the final decision of the ACO, the Board of Contract Appeals, or the Court of Federal Claims.

5-308 Maintenance of Reimbursement Claim Data

Maintain adequate records to show, by major cost element and fee, the amounts claimed for reimbursement for each applicable contract or task order covered by a separate series of public vouchers. The records should contain, by fiscal year, a reconciliation of any differences between the costs incurred under the contract or task order and the amounts claimed for reimbursement.

5-309 Withholding and Release of Contract Reserves

Contractual provisions covering fees, patents, royalties, etc., usually provide for the accumulation of a withholding reserve until certain contract requirements are met to the contracting officer's satisfaction (e.g. Patent Rights - Retention by the Contractor (Long Form), FAR 52.227-12). Include appropriate adjustments in reimbursement claims to cover the required accumulation and release of contract withholding reserves. Resolve any questions about these reserves with the ACO.

5-401 Progress Payments Based on Costs - General (FAR 32.5)

Progress payments are a form of Government furnished interest-free financing applicable to undelivered and uninvoiced items. Progress payments shall be made to the contractor when requested as work progresses, but not more frequently than monthly, in amounts approved by the contracting officer. Unless a contractor requests a smaller amount, each progress payment shall be computed at the rate stipulated in the progress payment clause of the contract, using the total costs under the contract as shown by the accounting books and records. The contractor may add to this amount progress payments made to subcontractors or other company divisions. The progress payment request must also be adjusted for the sum of

all previous progress payments. Contracts awarded to small business concerns are handled in a similar fashion but the rate of recovery is normally higher.

5-402 Processing Progress Payments

a. If the auditor has determined that the accounting and billing systems are reliable, progress payment preparation, submission, and review is normally a straightforward process. Contractors may include the following costs when incurred:

- (1) Financing and other payments for the costs of supplies and services purchased directly for the contract if the costs are (i) paid in accordance with the terms of the subcontract or invoice and (ii) ordinarily paid prior to submission of the contractor's next payment request.
- (2) Properly allocable and allowable indirect costs.
- (3) Cost of Money that would be allowable under FAR 31.205-10 (deemed an incurred cost for progress payment purposes).

b. Item 12b (reference figure 5-4-1), "Estimated additional cost to complete the contract", is of special interest to the auditor and the contracting officer. The contractor must support this estimate with an analysis that shows how the number was derived. It must be a realistic estimate and not simply a mathematical computation between contract value and the cost incurred. The estimate may be the last estimate made, adjusted for costs incurred since the last estimate; however, estimates shall be updated at least every 6 months.

c. The request for progress payments (SF 1443) is submitted to the office designated in the contract (usually the ACO) for approval. The instructions for preparing the SF 1443 are found on the back of the form (Figure 5-4-2). Refer to Figure 5-4-1 for an example of a completed form.

5-403 Treatment of Contract Overruns on Progress Payments

If the sum of the estimate to complete and the incurred cost exceed the contract price, the contract is in a loss position. In this case, costs eligible for progress payments may be discounted by a loss ratio factor, resulting in a smaller progress payment. The progress payment request submitted by the contractor should not be adjusted for the loss ratio. A supplementary analysis should be prepared (reference FAR 32.503-6) and attached to the progress payment request. (Refer to Figure 5-4-3 for an example of this analysis. This example is separate and distinct from examples 5-4-1 and 5-4-2.).

Figure 5-4-1 Sample Standard Form 1443

CONTRACTOR'S REQUEST FOR PROGRESS PAYMENT						Form Approved OMB No. 9000-0010	
IMPORTANT: This form is to be completed in accordance with instructions on reverse.							
SECTION I - IDENTIFICATION INFORMATION							
1. TO: NAME AND ADDRESS OF CONTRACTING OFFICE (Include ZIP Code) DCMAO, Baltimore 200 Townsontown Blvd., West Towson, Maryland 21204-5299 PAYING OFFICE DPSC-DCMA, PHILADELPHIA 2800 South 20th Street Philadelphia, PA 19101-4178				2. FROM: NAME AND ADDRESS OF CONTRACTOR (Include ZIP Code) Advance Tank Technology 500 East Highway Washington, DC 20001			
3. SMALL BUSINESS <input checked="" type="checkbox"/> YES <input type="checkbox"/> NO		4. CONTRACT NO. DAAH01-99-C-0001		5. CONTRACT PRICE \$ 5,000,000			
6. RATES A. PROG. PYMTS. B. LIQUIDATION 8 5 % 8 5 %		7. DATE OF INITIAL AWARD A. YEAR B. MONTH 99 2		8A. PROGRESS PAYMENT REQUEST NO. 3		8B. DATE OF THIS REQUEST June 15, 2000	
SECTION II - STATEMENT OF COSTS UNDER THIS CONTRACT THROUGH May 31, 2000							
9. PAID COSTS ELIGIBLE UNDER PROGRESS PAYMENT CLAUSE						\$	
10. INCURRED COSTS ELIGIBLE UNDER PROGRESS PAYMENT CLAUSE						2,293,500	
11. TOTAL COSTS ELIGIBLE FOR PROGRESS PAYMENTS (Item 9 plus 10)						2,293,500	
12. a. TOTAL COSTS INCURRED TO DATE						\$ 2,293,500	
b. ESTIMATED ADDITIONAL COST TO COMPLETE						2,080,730	
13. ITEM 11 MULTIPLIED BY ITEM 8a						1,949,475	
14. a. PROGRESS PAYMENTS PAID TO SUBCONTRACTORS							
b. LIQUIDATED PROGRESS PAYMENTS TO SUBCONTRACTORS							
c. UNLIQUIDATED PROGRESS PAYMENTS TO SUBCONTRACTORS (Item 14a less 14b)							
d. SUBCONTRACT PROGRESS BILLINGS APPROVED FOR CURRENT PAYMENT							
e. ELIGIBLE SUBCONTRACTOR PROGRESS PAYMENTS (Item 14c plus 14d)							
15. TOTAL DOLLAR AMOUNT (Item 13 plus 14e)						1,949,475	
16. ITEM 5 MULTIPLIED BY ITEM 8b						4,250,000	
17. LESSER OF ITEM 15 OR ITEM 16						1,949,475	
18. TOTAL AMOUNT OF PREVIOUS PROGRESS PAYMENTS REQUESTED						1,702,300	
19. MAXIMUM BALANCE ELIGIBLE FOR PROGRESS PAYMENTS (Item 17 less 18)						247,175	
SECTION III - COMPUTATION OF LIMITS FOR OUTSTANDING PROGRESS PAYMENTS *SEE SPECIAL INSTRUCTIONS ON BACK FOR USE UNDER THE FEDERAL ACQUISITION REGULATION.							
20. COMPUTATION OF PROGRESS PAYMENT CLAUSE (a)(3)(i) or a(4)(ii) LIMITATION*						\$ 1,732,060	
a. COSTS INCLUDED IN ITEM 11, APPLICABLE TO ITEMS DELIVERED, INVOICED, AND ACCEPTED TO THE DATE IN HEADING OF SECTION II.							
b. COSTS ELIGIBLE FOR PROGRESS PAYMENTS, APPLICABLE TO UNDELIVERED ITEMS AND TO DELIVERED ITEMS NOT INVOICED AND ACCEPTED (Item 11 less 20a)						561,440	
c. ITEM 20b MULTIPLIED BY ITEM 8a						\$ 477,224	
d. ELIGIBLE SUBCONTRACTOR PROGRESS PAYMENTS (Item 14d)						477,224	
e. LIMITATION (a)(3)(i) or a(4)(ii) (Item 20c plus 20d)*							
21. COMPUTATION OF PROGRESS PAYMENT CLAUSE (a)(3)(ii) or a(4)(i) LIMITATION*							
a. CONTRACT PRICE OF ITEMS DELIVERED, ACCEPTED AND INVOICED TO DATE IN HEADING OF SECTION II.						2,053,580	
b. CONTRACT PRICE OF ITEMS NOT DELIVERED, ACCEPTED AND INVOICED (Item 5 less 21a)						2,946,420	
c. ITEM 21b MULTIPLIED BY ITEM 8b						2,504,457	
d. UNLIQUIDATED ADVANCE PAYMENTS PLUS ACCRUED INTEREST							
e. LIMITATION (a)(3)(ii) or a(4)(i) (Item 21c less 21d)*						2,504,457	
22. MAXIMUM UNLIQUIDATED PROGRESS PAYMENTS (Lesser of Item 20e or 21e)						477,224	
23. TOTAL AMOUNT APPLIED AND TO BE APPLIED TO REDUCE PROGRESS PAYMENT						1,662,180	
24. UNLIQUIDATED PROGRESS PAYMENTS (Item 18 less 23)						40,120	
25. MAXIMUM PERMISSIBLE PROGRESS PAYMENTS (Item 22 less 24)						437,104	
26. AMOUNT OF CURRENT INVOICE FOR PROGRESS PAYMENT (Lesser of Item 25 or 19)						247,175	
27. AMOUNT APPROVED BY CONTRACTING OFFICER							
CERTIFICATION							
<p>I certify that the above statement (with attachments) has been prepared from the books and records of the above-named contractor in accordance with the contract and the instructions hereon, and to the best of my knowledge and belief, that it is correct, that all the costs of contract performance (except as herewith reported in writing) have been paid to the extent shown herein, or where not shown as paid have been paid or will be paid currently, by the contractor, when due, in the ordinary course of business, that the work reflected above has been performed, that the quantities and amounts involved are consistent with the requirements of the contract. That there are no encumbrances (except as reported in writing herewith, or on previous progress payment request No. _____) against the property acquired or produced for, and allocated or properly chargeable to the contract which would affect or impair the Government's title, that there has been no materially adverse change in the financial condition of the contractor since the submission of the most recent written information dated _____ by the contractor to the Government in connection with the contract, that to the extent of any contract provision limiting progress payments pending first article approval, such provision has been complied with, and that after the making of the requested progress payment the unliquidated progress payments will not exceed the maximum unliquidated progress payments permitted by the contract.</p>							
NAME AND TITLE OF CONTRACTOR REPRESENTATIVE SIGNING THIS FORM				SIGNATURE			
NAME AND TITLE OF CONTRACTING OFFICER				SIGNATURE			

Figure 5-4-1 Back of Standard Form 1443**INSTRUCTIONS**

GENERAL - All entries on this form must be typewritten - all dollar amounts must be shown in whole dollars, rounded up to the next whole dollar. All line item numbers not included in the instructions below are self-explanatory.

SECTION I - IDENTIFICATION INFORMATION. Complete Items 1 through 8c in accordance with the following instructions:

Item 1. TO - Enter the name and address of the cognizant Contract Administration Office; PAYING OFFICE - Enter the designation of the paying office, as indicated on the contract.

Item 2. FROM - CONTRACTOR'S NAME AND ADDRESS/ZIP CODE - Enter the name and mailing address of the contractor. If applicable, the division of the company performing the contract should be entered immediately following the contractor's name.

Item 3. Enter an "x" in the appropriate block to indicate whether or not the contractor is a small business concern.

Item 5. Enter the total contract price, as amended. If the contract provides for escalation or price redetermination, enter the initial price until changed and not the ceiling price; if the contract is of the incentive type, enter the target or billing price, as amended until final pricing. For letter contracts, enter the maximum expenditure authorized by the contract, as amended.

Item 6A. PROGRESS PAYMENT RATES - Enter the 2-digit progress payment percentage rate shown in paragraph (a)(1) of the progress payment clause.

Item 6B. LIQUIDATED RATE - Enter the progress payment liquidation rate shown in paragraph (b) of the progress payment clause, using three digits - Example: show 80% as 800 - show 72.3% as 723.

Item 7. DATE OF INITIAL AWARD - Enter the last two digits of the calendar year. Use two digits to indicate the month. Example: Show January 1982 as 82/01.

Item 8A. PROGRESS PAYMENT REQUEST NO. - Enter the number assigned to this request. All requests under a single contract must be numbered consecutively, beginning with 1. Each subsequent request under the same contract must continue in sequence, using the same series of numbers without omission.

Item 8B. Enter the date of the request.

SECTION II - GENERAL INSTRUCTIONS. DATE. In the space provided in the heading enter the date through which costs have been accumulated from inception for inclusion in this request. This date is applicable to item entries in Sections II and III.

Cost Basis. For all contracts with Small Business concerns, the base for progress payments is total costs incurred. For contracts with concerns other than Small Business, the progress payment base will be the total recorded paid costs, together with the incurred costs. Total costs include all expenses paid and incurred, including administrative expense for performance of contract, which are reasonable, allocable to the contract, consistent with sound and generally accepted accounting principles and practices, and which are not otherwise excluded by the contract.

Manufacturing and Production Expense, General and Administrative Expense. In connection with the first progress payment request on a contract, attach an explanation of the method, bases and period used in determining the amount of each of these two types of expenses. If the method, bases or periods used for computing these expenses differ in subsequent requests for progress payments under this contract, attach an explanation of such changes to the progress payment request involved.

Incurred Costs Involving Subcontractors for Contracts with Small Business Concerns. If the incurred costs eligible for progress payments under the contract include costs shown in invoices of subcontractors, suppliers and others, that portion of the costs computed on such invoices can only include costs for: (1) completed work to which the prime contractor has acquired title; (2) materials delivered to which the prime contractor has acquired title; (3) services rendered; and (4) costs billed under cost reimbursement or time and material subcontracts for work to which the prime contractor has acquired title.

SECTION II - SPECIFIC INSTRUCTIONS

Item 9. PAID COSTS ELIGIBLE UNDER PROGRESS PAYMENT CLAUSE - Line 9 will not be used for Small Business contracts. For large business contracts, costs to be shown in Item 9 shall include only those recorded costs which have resulted at the time request in payment made by cash, check, or other form of actual payment for items or services purchased directly for the contract. This includes items delivered, accepted and paid for, resulting in liquidation of subcontractor progress payments.

Costs to be shown in Item 9 are not to include advance payments, down payments, or deposits, all of which are not eligible for reimbursement; or progress payments made to subcontractors, suppliers or others, which are to be included in Item 14. See "Cost Basis" above.

Item 10. INCURRED COSTS ELIGIBLE UNDER PROGRESS PAYMENT CLAUSE - For all Small Business Contracts, Item 10 will show total costs incurred for the contract.

Costs to be shown in Item 10 are not to include advance payments, down payments, deposits, or progress payments made to subcontractors, suppliers or others.

For Large business contracts, costs to be shown in Item 10 shall include all costs incurred (see "Cost Basis" above) for: materials which have been issued from the stores inventory and placed into production process for use on the contract; for direct labor; for other direct in-house costs; and for properly allocated and allowable indirect costs as set forth under "Cost Basis" above.

Item 12a. Enter the total contract costs incurred to date: if the actual amount is not known, enter the best possible estimate. If an estimate is used, enter (E) after the amount.

Item 12b. Enter the estimated cost to complete the contract. The estimate may be the last estimate made, adjusted for costs incurred since the last estimate; however, estimates shall be made not less frequently than every six months.

Item 14a through 14e. Include only progress payments on subcontracts which conform to progress payment provisions of the prime contract.

Item 14a. Enter only progress payments actually paid.

Item 14b. Enter total progress payments recouped from subcontractors.

Item 14d. For Small Business prime contracts, include the amount of unpaid subcontract progress payment billings which have been approved by the contractor for the current payment in the ordinary course of business. For other contracts, enter "0" amount.

SECTION III - SPECIFIC INSTRUCTIONS. This Section must be completed only if the contractor has received advance payments against this contract, or if items have been delivered, invoiced and accepted as of the date indicated in the heading of Section II above. EXCEPTION: Item 27 must be filled in by the Contracting Officer.

Item 20a. Of the costs reported in Item 11, compute and enter only costs which are properly allocable to items delivered, invoiced and accepted to the applicable date. In order of preference, these costs are to be computed on the basis of one of the following: (a) The actual unit costs of items delivered, giving proper consideration to the deferment of the starting load costs of, (b) Projected unit costs (based on experienced costs plus the estimated cost to complete the contract), where the contractor maintains cost data which will clearly establish the reliability of such estimates.

Item 20d. Enter amount from 14e.

Item 21a. Enter the total billing price, as adjusted, of items delivered, accepted, and invoiced to the applicable date.

Item 23. Enter total progress payments liquidated and those to be liquidated from billings submitted but not yet paid.

Item 25. Self-explanatory. (NOTE: If the entry in this item is a negative amount, there has been an overpayment which requires adjustment.)

Item 26. Self-explanatory, but if a lesser amount is requested, enter the lesser amount.

Figure 5-4-2 Loss Ratio Factor Analysis

XYZ Company
Loss Ratio Factor Analysis

Section I:		
Contract price	\$2,850,000	
Change orders and unpriced orders (to the extent funds have been obligated)	150,000	
Revised Contract Price	\$3,000,000	
Section II:		
Total costs incurred to date	\$2,700,000	
Estimated additional costs to complete	900,000	
Total costs to complete	\$3,600,000	
Loss ratio factor- =	$\frac{\$3,000,000}{\$3,600,000}$	<u>83.3%</u>
Total costs eligible for progress payments	\$2,700,000	
Loss ratio factor	x 83.3%	
Recognized costs for progress payments	\$2,249,100	
Progress payment rate	x 80.0%	
Alternate amount to be used	\$1,799,280	
Section III:		
Factored costs of items delivered *	\$ 750,000	
Recognized costs applicable to undelivered items (\$2,249,100 - \$750,000)	\$1,499,100	

* This amount shall be the same as the contract price of the items delivered.

The SF 1443 should not be adjusted for the loss ratio. Adjustments for the loss ratio are shown in the Loss Ratio Factor Analysis, which should be submitted with the SF 1443. In the Loss Ratio Factor Analysis the SF 1443 amounts are changed as follows:

- (1) Line 5 changes from \$2,850,000 to \$3,000,000
- (2) Line 11 changes from \$2,700,000 to \$2,249,100
- (3) Line 13 will be \$1,799,280
- (4) Line 20a will be \$750,000
- (5) Line 20b will be \$1,499,100

5-501 Performance-Based Payments - General

Performance-based payments are the preferred form of government-furnished financing for fixed-price types of contracts when the contracting officer finds them practical and the contractor agrees to their use. They are not payments for accepted items. Since performance-based payments are contract financing payments, they are not subject to the interest-penalty provisions for prompt payment. Payments are to be submitted in a form and manner acceptable to the contracting officer. The contractor may not submit requests for payment more frequently than monthly (FAR 52.232-32(b)). Performance-based payments may be made on the basis of:

- (1) performance measured by objective, quantifiable methods;
- (2) accomplishment of defined events; or
- (3) other quantifiable measures of results.

5-502 Processing Performance-Based Payments

a. The contracting officer responsible for administering the contract is responsible for the review and approval of performance-based payments. Generally, the ACO is responsible for receiving, approving, and transmitting the performance-based payment request to the appropriate payment office. Each approval will specify the amount to be paid, the necessary contractual information and the appropriate account. The contracting officer cannot approve a payment until the specified event or performance criterion has been successfully accomplished.

b. The contracting officer is responsible for determining what reviews are needed to protect the government's interests. In determining the need for reviews, the contracting officer will consider the contractor's experience, performance record, reliability, financial strength, and the adequacy of contractor controls over performance-based payments. The contracting officer can request both pre-payment or post-payment reviews. The contracting officer may reduce payment when the contractor fails to comply with a material requirement of the contract, fails to progress on the contract, is in unsatisfactory financial condition, or is delinquent in payment of any subcontractor.

c. The contractor must maintain records and controls to adequately administer performance-based payments. This includes furnishing reports, certificates, financial statements, and other pertinent information requested by the contracting officer to either administer the payment or to determine that an event or other criterion has been successfully accomplished.

d. Auditors will provide assistance to contracting officers as requested. Prepayment assistance may be sought in negotiating and structuring the contract financing template, which addresses topics such as a description of the event, the contract line items to which the event applies, a statement as to whether the event is severable or cumulative, funding

information, the event's value, and the estimated dates when the events are expected to occur. Post-payment reviews may include verification of the accomplishment or incurred cost associated with the completion of a performance-based event or criterion. For a detailed discussion of performance-based payments, contractors should go to FAR 32.10 – *Performance-Based Payments*, and FAR 52.232-32 – *Performance-Based Payments*.